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Alberta Economic Development

Alberta Business Outlook 2001-2002

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Policy and Economic Analysis

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ALBERTA BUSINESS OUTLOOK, 2001 - 2002

Policy and Economic Analysis Division
Alberta Economic Development
December 2001

SEPTEMBER 11 IMPACTS

- The following outlook was prepared after the tragic events of September 11. Although an attempt was made to include the impacts on Alberta's economy, neither the duration nor the severity of the impacts can be assessed adequately at this time.

- Even before September 11, economic growth in the US and Canada had come to a virtual standstill, with second quarter growth of less than 0.5 per cent (at annual rates), compared with growth of more than five per cent in early 2000. However, the Alberta economy ran counter to the rest of North America and continued to grow at a strong pace in 2001.

- Most of the impacts on the US will be felt in the third and fourth quarters of 2001, and contributed to the US officially entering a recession in the third quarter. The effects on the Canadian economy will be smaller, but still significant. After the first quarter of 2002, it is expected that the impacts on the Canadian economy will slowly turn around and become positive as a result of the reconstruction efforts and military spending in the US and lower Canadian interest rates.

- The Alberta economy remains better positioned than most to weather the impacts of September 11, because of its strong energy sector, and the high level of investment in the oil sands. The energy sector may be further boosted by the US pursuit of security of long-term supplies. The tourism industry has been seriously impacted by the September 11 events and their effects could last well into 2002.

- International trade faces higher transportation costs, due to longer waits at the border, the increased need for export insurance and rising premiums, and increased security. So far, US border delays have not increased enough to be a major concern to shippers. US customs have become more sensitive about Canadian companies meeting labeling and packaging requirements. Business travel costs could also rise.

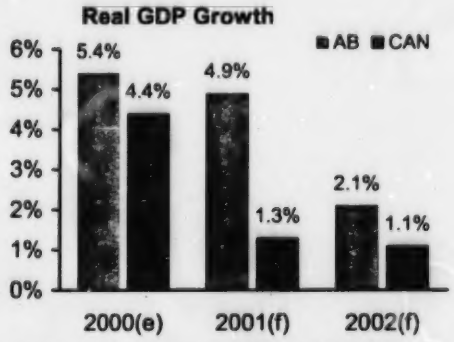
- According to Canada's Export Development Corporation world trade will suffer for years to come, as companies will look closer to home for suppliers for security reasons and to avoid border delays and increased transportation costs. However, Alberta and Canada are still viewed as a safe, reliable, stable supplier and investment destination by their major overseas clients.

KEY INDICATORS

- Alberta's economy expanded strongly in 2000, because of high commodity prices, strong domestic and external demand, and a robust manufacturing sector. Real Gross Domestic Product (GDP) growth for Alberta is estimated at 5.4 per cent in 2000. Alberta's economy is expected to perform strongly in 2001 as well, but will likely see lower growth in 2002.

- All private sector forecasters predict Alberta to top all provinces in economic growth for the second consecutive year in 2001. Post September 11 forecasts for Alberta's economic growth in 2001 range from 3 to 4.5 per cent. For 2002, Alberta is expected to be one of the top two provinces, with growth forecasts ranging from 2.1 to 4 per cent. Alberta Finance is forecasting 2.1 per cent growth, higher than Canada's predicted growth of about 1.1 per cent.

- Strong domestic demand and the strong energy sector again fueled Alberta's economic growth in 2001. The two strongest growing sectors since the mid nineties, construction and business services, are also growing strongly this year.



Sources: Alberta Finance; Statistics Canada; Finance Canada

- Lower federal and provincial income taxes and strong employment and investment growth are positively impacting economic growth in 2001. However, lower economic growth in the US and the rest of Canada is significantly reducing export growth.

- The very strong economic performance over the first eight months is expected to more than compensate for the lower growth that will likely result from the events of September 11 and the recent weakness in the North American economy.

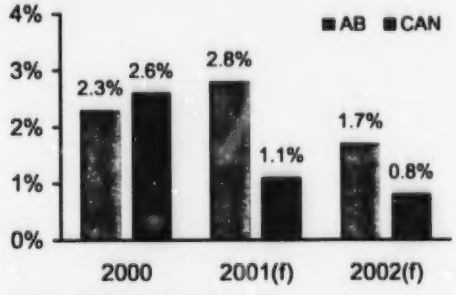
- Alberta's strong growth in 2001 is borne out by the recent performance of the major indicators, for instance:
  - Total employment rose by an average of 46,000 during the first eleven months,
  - International goods exports up 19.1 per cent in the first nine months,
  - The number of wells drilled up 10.9 per cent through the first part of November, and the number of active drilling rigs up 9 per cent,
  - Retail sales rose 9.1 per cent in the first nine months,
  - Housing starts rose 12.2 per cent in the first ten months,
  - MLS home sales up 11.5 per cent through October, and
  - Wages and salaries up 7.9 per cent in the first nine months.

- A total of 34,900 net new jobs were created in 2000. Because the economy is expanding strongly and employment gains were much higher than expected in the first half of 2001, employment growth is forecast at 45,000, an increase of 2.8 per cent from 2000. Moreover, Alberta's unemployment rate has been the lowest of all provinces since early 2001.

- Lower net in-migration because of stronger economic growth in Ontario and BC, which have supplied most of Alberta's inter-provincial migrants in recent years, caused a smaller increase in the work force in 2000. However, both of these provinces are now seeing lower economic growth. This, combined with Alberta's strong growth could boost in-migration and employment levels. In the first half of 2001, net migration (international plus

inter-provincial) into Alberta rose 6.5 per cent from a year earlier, to just over 20,000. Employment is therefore expected to increase by 45,000 jobs in 2001. For 2002, employment is forecast to rise by between 25,000 and 30,000.

Employment Growth



Sources: Statistics Canada; AED

- In 2000, farm cash receipts increased to $7.4 billion. Forecasts for 2001 are for further increases in farm cash receipts, mainly as a result of higher livestock receipts and government payments. Receipts are expected to increase by over 10 per cent in 2001. As a result of drought conditions however, total production of grains and oilseeds in 2001 is expected to fall to its lowest level since 1992.

- Crude oil prices for West Texas Intermediate (WTI) increased to an average of US$30.20 for the year 2000. By mid November 2001, they had fallen to about $18 per barrel. After rising sharply throughout 2000, the price of natural gas peaked in early 2001 at more than $10 per thousand cubic feet. Although prices have fallen sharply since to reach just under $4 in early November, they remain relatively high from a longer term historical perspective.

- According to the Canadian Association of Oilwell Drilling Contractors, the industry drilled a record 16,507 wells in Western Canada in 2000. The number of wells drilled will increase in 2001 to a forecast new record of 16,700 wells, but decline to about 13,600 in 2002. More than 75 per cent of these wells will be drilled in Alberta.

- Manufacturing activity increased strongly in 2000, but is seeing lower growth in 2001 because of the world economic slowdown, especially in the computer and electronic products industry. Manufacturing shipments are forecast to grow by approximately 2.5 per cent in 2001, because of lower growth in both volumes and prices. Although volumes are expected to increase more strongly in 2002, low prices, particularly for refined petroleum products, petrochemicals and forest products, could limit growth in the value of shipments to four per cent.

- Total forest product shipments are expected to decline by about 12 per cent in 2001 to $3.6 billion, because of weak prices for all major commodities.

- Growth in Alberta's information and communications technology sector was exceptionally strong in 2000, because of very strong world-wide demand for telecom equipment. However, the global downturn in this sector has also affected Alberta's ICT sector and especially the telecom equipment sector, which has seen large declines in production and exports this year.

- After increasing by 8.1 per cent in 2000, retail sales have grown even more strongly this year, and are expected to increase by 8.5 per cent in 2001, because of gains in disposable income and employment.

In 2002, retail sales growth is expected to remain strong, partly because of low interest rates and solid employment gains, but lower than in 2001, as growth in disposable income will be lower. Growth is forecast at five per cent for 2002.

- The demand for new housing has increased because of the strong Alberta economy and population growth. This led to strong growth in single-detached starts and modest growth in multiple starts. As a result, total starts are forecast to increase by nearly 2,000 units to a record 28,200 in 2001. Housing starts are expected to remain strong in 2002, although somewhat lower than in 2001, because of weaker growth in the economy.

- Non-residential construction is expected to see strong growth in 2001, as investment in conventional oil and gas projects, oil sands and government infrastructure increase. Construction activity is forecast to decline slightly in 2002, as a significant decline is forecast for conventional energy projects, although investment in the oil sands and co-generation power-plants will remain strong.

- The industry which is most affected by the terrorist attacks on the US is tourism. Cancellations from Asia and the US rose dramatically in the weeks following the attacks, and it is expected that the impacts will be felt through most of 2002.

- The outlook for Alberta's electricity industry has improved greatly since the last outlook. Prices for natural gas, one of the major inputs for the industry, have fallen sharply since the beginning of this year. Moreover, recent high electricity prices have created surplus capacity as demand has declined and new capacity has been added. Some of this surplus capacity is being exported. Recently announced power projects, including many co-generation projects, will further add to Alberta's capacity.

Downside Risks

- There are two downside risks to this outlook:
  - Although it was assumed that both the US and Canadian economies will see very little economic growth in 2001, more prolonged or sharper than expected declines, for instance because of a further decline in consumer demand brought on by falling employment levels and concerns about national security, or a deepening of the manufacturing sector's slump, would likely lead to lower growth in Alberta as well.
  - Weaker than expected US demand for oil and gas could result in a further slide in oil and gas prices, resulting in further reductions in investment and employment in the energy sector.

Sources of GDP Growth

- Alberta's GDP grew by 5.4 per cent in 2000, as all sectors of the economy contributed. In 2001, growth in domestic demand is expected to be slightly lower than in 2000. Growth in consumer spending will be higher as the effects of tax cuts kick in, but investment growth will moderate, because of a slowdown in conventional drilling activity in the second half of 2001. Exports will likely increase by less than two per cent, and net exports are expected to decline. (Note: in this section exports and imports include both international

and inter-provincial trade.) As a result, Alberta's 2001 GDP growth is forecast to reach 4.9 per cent.

- For 2002, GDP growth is forecast to weaken to 2.1 per cent, mainly because of a slight decline in investment. Net exports are expected to increase, but not strongly, as world economic growth will remain modest.

- Personal expenditures on goods and services grew strongly in 2000 by 5.4 per cent. For 2001, even higher growth of almost six per cent is forecast. Lower provincial and federal taxes and utility rebates will increase disposable income. MLS sales, new car sales and housing starts have been growing strongly in 2001. Moreover, both employment and economic growth are strong.

- Personal expenditure growth is forecast at about 3.5 per cent in 2002, as housing starts decline and disposable income grows at a slower rate, although low interest rates should provide some stimulus.

- Investment growth in 2001 for structures and machinery and equipment will be lower than forecast earlier this year. Statistics Canada reported in July that investment intentions for 2001 were 14 per cent higher than 2000 investment, mainly as a result of strong growth in oil sands and conventional oil and gas drilling. Low natural gas prices and access problems in recent months will result in lower than expected growth for conventional drilling, and overall 2001 investment growth will be under ten per cent.

- In 2002, investment activity could decline, as conventional drilling is expected to drop by as much as 20 per cent. Despite lower oil prices, oil sands investment is forecast to total at least $6 billion.

- Export growth was exceptionally strong in 2000, with international exports up 54 per cent from the previous year, as volumes but especially prices rose sharply. As the rest of Canada also grew strongly, inter-provincial exports increased at a slightly stronger rate than in recent years. As a result, real export growth is estimated at ten per cent for 2000.

- In 2001, economic growth in the US and Canada has slowed significantly. Little or no growth is expected for export volumes of crude oil and manufactured goods. Manufacturing export growth will be very weak, because of the global problems of the Information and Communications Technology sector, which have caused exports of telecom equipment to decline. Export volumes of natural gas have jumped because of the opening of the Alliance pipeline. Petro-chemical exports received a boost from the additional capacity that came on-stream in 2000. Total export growth, adjusted for inflation, is forecast at about two per cent for 2001.

- Alberta imports also rose by about ten per cent in real terms in 2000. For 2001, growth of six per cent is forecast, because of strong demand from the energy sector and stronger consumer demand. In particular, high growth in machinery and equipment will boost imports.

- After declining by as much as ten per cent in 2001, net exports are forecast to grow modestly in 2002. Export growth could be similar to import growth, because of the recent weakening in the Canadian dollar, the

expected strengthening of the Canadian and US economies in the second half of 2002, and weaker economic growth in Alberta.

AGRICULTURE

- Farm cash receipts increased 14 per cent in 2000 to $7.4 billion. Preliminary forecasts for 2001 are for further increases in cash receipts of over 10 per cent, led largely by the livestock sector. Livestock production and prices have remained very strong. However, drought conditions have caused a sharp decline in production of grains and oilseeds, and total production is expected to be the lowest since 1992.

- International exports of agri-foods, which include primary and value-added agricultural products, rose to $5.1 billion in 2000. Exports for the first eight months of 2001 rose 20 per cent, with primary agricultural exports up 18 per cent and processed food and beverages up 21 per cent.

- According to the Export Development Corporation (EDC), the global agri-food sector may have the highest growth of all industries in 2001, and this sector is expected to perform above average again in 2002. It is a "must have sector" and as a result should out-perform the economy as a whole in a low-growth scenario like the present.

- The EDC expects Alberta's agri-food sector to lead all major sectors in export growth in both 2001 and 2002, because of higher prices and strong volume growth.

- In 2000, the value of agri-food exports to the US increased to $2.8 billion. For the first eight months of 2001, total agri-food exports rose 23 per cent, with primary exports rising by more than a third.

- Agri-food exports to Asia reached $1.2 billion in 2000. For the first eight months of 2001, these exports were up more than 20 per cent, as both primary agricultural exports and value-added exports rose strongly.

- Currently, Alberta cattle markets are strong in response to a weaker Canadian dollar and relatively strong beef demand. Although cattle prices have weakened since September 11, they are well above the five-year average, and will likely remain so through 2001.

- Live cattle exports to the US increased by about 28 per cent to 419,000 head in the first nine months of 2001. At the same time feeder cattle imports from the US declined by around 14 per cent.

- Monthly hog prices peaked in June and have declined seasonally since that time. However, prices have generally been significantly above 2000 levels. The number of hogs marketed has also increased in 2001.

- A drought in southern Alberta and low prices caused a drop of 10 percent in 2000 cash receipts from grains and oilseeds. Prices in 2001 have improved significantly but another drought in southern Alberta will limit any recovery in cash receipts.

- Average prices for all grains and oilseeds are expected to be higher in the 2001/02 crop year. Grain and oilseed production, however, is expected to have declined further in 2001, down 2.4 million tonnes and 20 per cent below five year average levels.

- The canola harvest was down 27 per cent in 2000 with decreased acreage and yields, but sales were up slightly as a result of the large 1999 crop. Canola production is forecast to decline by over 25 per cent in 2001 largely as a result of reduced acreage. September 11 events had little effect on canola prices.

- The agri-food sector has not been impacted significantly by either US trade restrictions or border relations as a result of the September 11 crisis. There is increased sensitivity at the border for companies not meeting US requirements in areas such as labeling or packaging, and Alberta exporters should be encouraged to be very diligent in meeting these requirements.

- Small and medium sized food-processing companies catering to the hotel, restaurant and institutional trade are reporting declines in business both domestically and in the US.

- Significant opportunities may exist for Canadian value-added exports in the long-term. The US will look to Canada as a supplier of agri-food products to replace imports from Europe and the Middle East. It is also expected that the military may begin to source its food supplies from Canada, rather than other international markets, to avoid any disruption in delivery.

ENERGY

- High oil and gas prices resulted in increased activity in the energy industry in 2000 and 2001. In 2000, additions to reserves exceeded production in Canada and the US, for both crude oil and natural gas. Canadian production of oil and gas rose strongly, and foreign production by Canadian companies increased by almost one quarter. Foreign investment by Canadian companies has risen sharply in 2001.

- Investment in Alberta's oil sands is set to remain strong over the next few years. More than $45 billion in investment has been announced, most of it to take place over the next five years. Five companies, Syncrude Canada, Canadian Natural Resources, Husky Energy, Suncor Energy and Mobil Oil, will account for the bulk of this investment.

- Crude oil prices had retreated to about US$18 per barrel by mid November 2001, down from an average of just over US$30 in 2000. This decline was due to the September 11 events and weakening world demand. World oil demand is stagnant because of the slowdown in global economic growth, the slump in the manufacturing sector and high oil prices. The terrorist attacks caused the demand for jet fuel to decline by an estimated twenty per cent in the US and ten per cent outside the US. It also caused lower growth in the demand for gasoline and fuel oil.

- The International Energy Agency recently issued its ninth consecutive downgrade in world-wide demand growth for crude oil. World oil demand in 2001 is now forecast to increase by 0.1 per cent, and demand in OECD countries is

expected to decline slightly. For 2002, world demand could increase by just under one per cent. US fuel inventories remain at healthy levels while US demand is falling. OPEC has responded to the weaker demand situation with three production cutbacks through the first nine months of 2001, and a fourth one has been announced for January 2002.

- The opening of the Alliance pipeline in early December 2000 and other capacity added during the past two years, have resulted in an almost 30 per cent increase in the export capacity of natural gas. In 2001, export volumes have increased strongly as a result of the added capacity.

- The average fieldgate price of natural gas peaked in January 2001 at more than Cdn$10 per thousand cubic feet, compared with $4.49 in 2000, but has fallen since to just under $4 by early November. US inventories have increased, as the demand for natural gas for electricity generation tumbled in 2001, because of a switch to cheaper fuel sources. Relatively mild summer weather and lower industrial demand further depressed US consumption.

- The US Energy Information Administration (EIA) expects gas prices to remain weak in 2002, because of high inventory levels and weak demand. The EIA forecasts US natural gas consumption to fall by 2.7 per cent in 2001, but increase by 7.5 per cent in 2002. Canadian imports are forecast to increase marginally in both years.

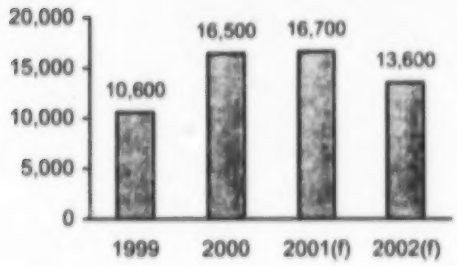
- After 2002, the demand for natural gas is expected to increase strongly, boosted by increased demand for electricity generation and a switch from coal and nuclear to natural gas. US natural gas imports, most of which will come from Canada, could increase by more than 50 per cent over the next 20 years. Prices are therefore expected to strengthen over the long term.

- The Canadian Association of Oilwell Drilling Contractors (CAODC) estimates that a record 16,507 wells were drilled in Western Canada in 2000. The CAODC forecasts 16,700 wells for 2001, down from its April forecast of 19,455 wells, because of lower gas prices and problems related to access to drilling locations. Although the CAODC is forecasting a decline to 13,600 wells in 2002, this level of activity is high by historical standards. Moreover, the slowdown will alleviate some of the problems associated with 2001's frantic pace of drilling activity, such as lack of experience and training for new hires.

- More than 75 per cent of these wells will be punched in Alberta. Based on data for the first ten months of 2001, the number of wells drilled in Alberta will likely reach a record high. Gas wells account for 75 per cent of the year-to-date total for 2001. Although gas prices have declined sharply since the beginning of this year, their effects on well completions were not felt until the final quarter.

- As a result of the terrorist attacks, US long-term demand for Alberta's energy products will likely increase, as the US seeks to substitute closer energy sources for the more volatile Middle Eastern sources. This could especially benefit investment in the natural gas and oil sands sectors, and could accelerate the development of the pipeline for northern frontier gas.

Wells Drilled in Western Canada

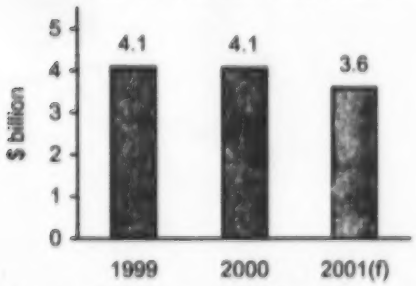


Source: CAODC

Forestry

- In 2000, deteriorating lumber and panel-board prices led to a decline in Alberta's solid wood product shipments, while pulp prices caused pulp and paper shipments to increase sharply. In the first eight months of 2001, solid wood products and pulp and paper shipments fell by 4 and 17 per cent, respectively. For 2001, Alberta forestry shipments are forecast to decline by 12 per cent due to price deterioration in all forest product markets.

Alberta Forestry Shipments



Sources: Statistics Canada; AED

- After falling to a ten-year low of US$180/Mbf (thousand board-feet) in the beginning of 2001, lumber prices recovered to reach a five-year high of US$376/Mbf by the end of May. The increase was attributed to better than expected US housing starts and the anticipated 19.3 per cent countervailing duty (CVD), which was imposed afterwards on Canadian lumber shipments into the US by the US Department of Commerce (DOC). Subsequently, prices fluctuated down to US$229/Mbf as of November 9, 2001.

- On October 30, the DOC found that Canadian producers/exporters had sold their products below fair value, and an additional 12.58 per cent anti-dumping duty was imposed. The combined duty of 31.9 per cent raises the break-even point to around US$225/Mbf.

- The current oversupply of lumber on the US market will make it difficult for Canadian companies to transfer this tariff onto American buyers. With prices of around US$229/Mbf, Canadian producers are staying out of the market. Regardless, the dispute is expected to remain a major factor affecting North American softwood lumber markets well into 2002.

- In the first months of 2002, lumber prices are expected to undergo their normal seasonal rally, as companies build up inventories for the 2002 construction season.

- North-central (NC) oriented strand board (OSB) prices fell steadily throughout 2000 to US$135/Msf (thousand board feet) by year-end, approaching North American average variable cost levels. The sharp decline in OSB prices was due to large inventory accumulations. NC OSB prices temporarily peaked at US$235/Msf in the second quarter of 2001, due to increased residential construction but gradually declined

to US$140/Msf level in the beginning of November. Buyers kept their inventories low, particularly after September 11, unwilling to hold inventory in the wake of economic uncertainly in US.

- Prices of all grades of pulp were forced down in the first half of 2001 because of swelling North American and Scandinavian internal inventories, pulp buyers drawing down inventories, and increased purchases of pulp in spot markets. Prices of northern bleached softwood and hardwood kraft pulp declined to $US480/metric tonne (mt) and $430/mt, respectively, by August 2001, from cyclical highs of $US710/mt and $785/mt in January 2001. Prices rose by $10/mt in September. However, despite considerable producer downtime, softwood pulps in particular still appear to be too abundant. Most analysts do not expect improvement in pulp prices by the end of 2001.

- Newsprint prices stalled in the first half of 2001 at US$620/mt, before declining in the second half due to decreasing newsprint consumption in the US and Asia. Prices are expected to fall to US$560/mt by yearend. No significant improvement in newsprint markets is expected in 2002.

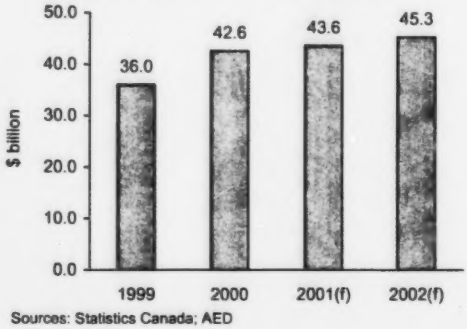
- The events of September 11 accelerated the US economic slowdown, dropping lumber and panel prices, and exacerbating the oversupply of commodity building materials. The large decline in US consumer confidence that followed September 11 could lead to fewer housing starts and lower demand for furniture.

MANUFACTURING

- Manufacturing shipments grew by 18 per cent to $42.6 billion in 2000, partly because of higher commodity prices, for instance for petroleum products, chemicals and wood pulp, partly because of higher volumes, especially of food products and oil and gas field equipment.

- During the first nine months of 2001, Alberta shipments increased by 4.1 per cent, again as a result of a combination of higher prices and volumes. The largest increases were recorded by the machinery industry (up 34%, higher volumes), metal fabrication (up 13%, higher volumes) and food (up 9%, higher prices and volumes).

Alberta Manufacturing Shipments



Sources: Statistics Canada; AED

- Although strong resource prices (other than forest products) and the strong energy sector have somewhat insulated Alberta's manufacturing sector this year, it is affected by the global slowdown of this sector, especially in the telecom and forest product sub-sectors, and by lower world economic growth. As a result, the growth forecast for 2001 has been lowered to 2.5 per cent.

- The manufacturing sector will again see modest growth in 2002. Although

anticipated higher world economic growth in the second half, capacity growth in the petro-chemical industry and Alberta's oil sands construction boom are expected to result in higher volume growth, overall shipment growth may not exceed four per cent, because of lower commodity prices (e.g. for petro-chemicals and refined petroleum products) and continued weakness in the telecom industry.

- Additional ethylene and polyethylene capacity, and other derivative production will be contributing factors to the growth in chemical manufacturing. More than $3 billion of petrochemical investment projects will be completed by late 2001. This is expected to increase this industry's capacity by about 20 per cent.

- In 2000, the value of chemical shipments increased because of higher prices. The additional capacity that has come on-stream and recent price increases have led to further growth in 2001. For the first nine months, shipments increased 4.7 per cent. The outlook for 2002 is mixed as increased capacity will lead to higher volumes, but prices will likely be lower.

- Alberta's food and beverage processing industry continues to expand. In 2000, food and beverage shipments rose to $9.2 billion, because of strong growth in meat and dairy product output. Shipments increased 8.2 per cent during the first nine months of 2001, and could reach the $10 billion level for the entire year. The value of meat product shipments has risen sharply this year, mainly to the United States. Shipments should increase in 2002 as a result of strong demand.

- Alberta's computer and electronic products industry increased strongly in 2000, because of a large increase in world-wide demand, especially for telecom equipment. The world-wide slowdown in the IT sector this year has also affected Alberta's computer and electronic products industry, which declined 11.5 per cent during the first nine months. Demand will likely continue to decline for the rest of 2001, but is expected to start increasing by the end of 2002, when world-wide demand for IT equipment is expected to rebound.

- Major new investments in oil sands, conventional drilling and power plants are driving growth in Alberta's machinery and fabricated metals industries in 2001. Demand increased significantly in 2000, in both the domestic and foreign markets, and the value of shipments for the machinery and fabricated metals industries rose 23 per cent.

- For the first nine months of 2001, these two sectors combined grew by nearly one quarter. The outlook for 2002 is also positive, because of investment growth in oil sands and power plants. The demand for Alberta oil and gas equipment and know-how will increase as the Continental Energy Policy takes shape with the US.

- For Alberta industries that ship mostly by rail, such as petrochemicals, refined petroleum products and forest products, there was little disruption of shipments after September 11. Insurance and security considerations due to terrorist activities could increase ocean and air freight costs to overseas markets. The trend towards just-in-time shipments might be reversed.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

- Alberta's information and communication technology (ICT) sector includes companies engaged in producing computer & communications equipment; semiconductors & other electronic components; navigational, medical & control instruments; software/ computing products & services; and telecommunication equipment & services.

- In Alberta, the ICT sector is developing at a fast pace. In 2000, there were about 8,300 ICT companies, generating approximately $10 billion in revenues and $4.8 billion in exports. The ICT sector's revenues and exports increased sharply in 2000, as a result of strong growth in the telecom equipment sector. The economic boom in the sector in the US led to this record growth.

- Alberta's ICT sector was not left unaffected by the global slowdown in the industry, resulting from economic stagnation in the US. The domestic ICT market is relatively small, and therefore the sector has to rely upon growth from abroad. This year, US companies are slashing investment spending, production and imports to address their excess capacity and high inventory problems. As a result, in 2001 total Alberta ICT exports will likely decline by at least 30 per cent. Alberta ICT exports are forecast to either show no growth in 2002 or decline by up to five per cent.

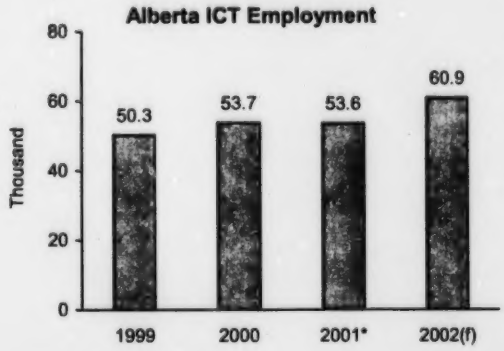
- 2000 was an exceptional year for the telecom equipment sector. Strong growth in investment spending in the US was spurred by low prices and market growth. However, this created overcapacity in the sector and threw smaller telecoms into large indebtedness. This, coupled with the crash of the US ICT sector and the overall slowdown in the US economy, paved the way for economic hardship for the sector in 2001 and 2002. For the first eight months of 2001, the value of Alberta telecom exports decreased by about 30 per cent.

- Growth over the next few years will depend on the rate of outdating of the incumbent telecom equipment, the recovery rate of the US and world economies and the forthcoming demand for third generation (3G) wireless telecom technology. Capital outlays by US telecom and internet service providers are projected to fall by a combined 10 per cent in 2001 and a further drop of 15 per cent is forecast for 2002. Sales of wireless telecom equipment have held up better than most other types of ICT equipment. Global shipments of mobile phones could increase by 3 per cent in 2001 (source: Export Development Corporation).

- Economic adversity is also expected for the computer and related equipment sector in 2001 and 2002. The Economist Intelligence Unit expects that world-wide semi-conductor sales will decline by 30 per cent in 2001. Modest growth of around ten per cent is forecast for 2002, with stronger growth thereafter.

- As of October 1, 2001, the number of ICT employees is 53,600 people, with a further growth estimated at 5,000 more by the end of 2001. Over the next five years, employment growth in the sector is forecast to average 5.5 per cent per year. To ensure continuing growth of the sector, the provincial government is working towards attracting a qualified labour

force to the province and integrating ICT in Alberta schools.



Sources: Statistics Canada; AED

- Alberta remains on the forefront of connectedness. In 2000, Alberta led the country in on-line use with nearly 58.8 per cent of Alberta households accessing the Internet. The province is also first in computer and cell-phone use. Among Canada's 15 major metropolitan areas, Calgary is a leader and Edmonton ranks in the top five in the adoption of ICT.

- In October 2000, the Government of Alberta announced the creation of Alberta SuperNet, a high-speed broadband network to 422 Alberta communities. The contract was awarded to a consortium led by Bell Intrigna and is expected to be completed by 2004. The total investment in the project is estimated at $300 million, with a maximum of $193 million to be provided by the Alberta Government.

- In August 2001, the federal and Alberta governments and the University of Alberta announced that they are contributing a total of $120 million to create the National Institute for Nanotechnology in Canada. The facility's specialized equipment and 200 researching staff would put the University on a par with four other centres in the US, Great Britain, Singapore and Taiwan.

- The rebuilding in New York could provide a marginal boost to this industry, as there will be a need to replace the computers and telecom equipment lost. Higher research and development spending to provide better intelligence and increased security, as well as the trend towards e-learning and teleconferencing could benefit the ICT industry over the longer term. Orders by air carriers for communication services and products may increase as a result of increased demand for intelligence and secure communication systems.

- Companies will see an increased need for duplication of back-up data centers. Canadian cities may benefit from decentralization as US firms look for centers that are less likely to be targeted, for redundancy and recovery systems.

- As a result of the Sept 11 crisis, the perception is that wireless phones will likely become an indispensable part of modern life contributing to increased sales. Wireless infrastructure spending could increase because of overloading and inadequacies of wireless networks during the attacks.

CONSUMER SPENDING

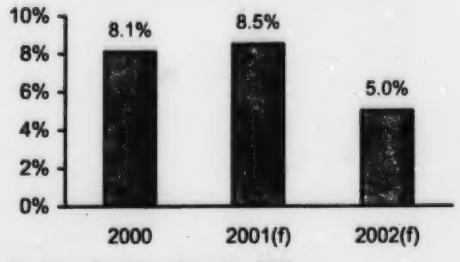
- Alberta leads the country in retail sales per capita. In the first nine months of 2001, retail sales increased by 9.1 per cent, the highest growth of all provinces and well above the Canadian average of 4.5 per cent. The increase in retail sales was broad-based, led by strong growth in sales of auto parts & services and furniture & appliances, as well as higher gasoline prices.

- The strong performing Alberta economy, rising employment levels, increasing disposable income, net in-migration and low interest rates are supporting the growth in retail sales. Moreover, provincial and federal tax cuts and provincial utility rebates stimulated consumer demand. For this reason, retail sales are forecast to grow by 8.5 per cent in 2001.

- Favorable economic conditions will support strong retail sales growth in 2002, but it will be lower than in 2001, because of the weakening of the energy sector and lower consumer confidence. However, this year's strong employment growth and sharp reduction in interest rates should keep retail sales growth at a strong five per cent.

- According to the Conference Board of Canada, consumer confidence in the Prairies increased by 7.6 per cent between the first and second quarters of 2001, mainly due to Alberta's economic growth. Confidence fell by 5.6 per cent right after the terrorist attacks. Lower consumer confidence can eventually translate into reduced purchases of motor vehicles and other big-ticket and luxury items. But in the case of Alberta, consumer confidence is expected to bounce back because of strong employment growth, tax cuts, strong construction activity and low interest rates.

Alberta Retail Sales Growth



Sources: Statistics Canada; AED

TOURISM

- The outlook for Alberta's tourism industry during the next six to twelve months has seriously deteriorated as a result of the events of September 11. The negative impact has already been felt throughout the province as tourism operators have received many cancellations. The greatest number of cancellations are from American and overseas visitors. The overall impacts of September 11 on Alberta's tourism industry have been estimated at about $150 million for 2001, or about three to four per cent of total tourism revenues.

- The greatest impact is expected from the Asia Pacific markets, Japan in particular. Visitors from these countries are especially sensitive to security concerns and it is anticipated that declines in the number of overnight visitors from these markets will be significant. As an example, as of September 21, 2001, VIA Rail had experienced 90 per cent cancellations from Japan for the next four weeks.

- Declines are also expected from American and European visitors. Hotels in resort areas of the United States, such as Orlando, saw occupancy rates decline from 85 per cent to 10 per cent immediately following the terrorist attacks.

- It has been reported that hotels in Alberta's National Parks had a significant number of cancellations, and an estimated $25 million in room revenues were lost in September and October.

- Canada-bound European bookings have not declined as sharply as bookings in other markets, and there

is some evidence of tour operators switching their North American focus from the US to Canada.

- The effects of September 11 on the US propensity to travel were underscored by the third quarter US GDP results. Imports of services fell sharply by 29 per cent, because of a dramatic decline in the number of Americans traveling overseas. This was partly caused by the shutdown of US airports following the attacks, but the subsequent aversion to air travel also contributed. According to a recent forecast by the Travel Industry Association of America total travel expenditures in the US could decline by 7.6 per cent in 2001, mainly because of sharp declines in the third and fourth quarters.

- Canadian GDP estimates for the month of September show a 19.1 per cent month-over-month decline in the output of the airline industry. Output of the accommodations industry tumbled by 10.9 per cent, and of the travel and tour agency industry by 12.6 per cent.

- There is some indication that there may be an opportunity for Alberta operators to attract visitors from local and regional markets (within driving distance). As many people cancel plans to travel to long-haul destinations or by air, they may consider destinations closer to home. There is also a possibility that group functions – sales meetings or conferences – especially those booked off-shore by Canadian or American organizations, might be re-scheduled to an Alberta location.

Housing and Non-Residential Construction

- According to Statistics Canada's latest survey of *Private and Public Investment in Canada* (PPI), total capital expenditures on new construction in Alberta increased by 20 per cent in 2000 to $24 billion, mostly as a result of high energy prices.

- Strong energy prices and drilling activity, and a positive investment environment triggered an increase in the number of projects scheduled for construction. Based on companies' intentions, PPI predicted that in 2001 total construction investment will rise by 16 per cent, to $27.9 billion. However, recent weakness in the conventional drilling sector could result in lower overall growth of about ten per cent.

- Energy-related construction investment was expected to grow strongly in 2001 by 26 per cent to $15.7 billion. Oil sands investment is anticipated to climb 72 per cent to $2.7 billion in 2001. Conventional oil and gas extraction was expected to grow strongly in 2001 (by 20 per cent). However, declining oil and gas prices have reduced 2001's growth for conventional oil and gas to less than five per cent, and will result in a decline in 2002.

- In 2001, construction investment in the utilities sector is expected to increase by 9.5 per cent to $715 million. To satisfy the province's critical need for more electricity, over 20 gas- and coal-fired cogeneration plants are scheduled for construction in the next five years.

- Non-energy investment is expected to rise by 3 per cent to $12 billion in

2001. This growth will result from strong institutional investment and residential construction.

- Residential construction has developed strongly over the past two years. In 2000, total housing starts rose 3.2 per cent to 26,300 units.

- For the first ten months of 2001, urban housing starts increased by more than 2,000 units compared with last year's levels. The Canada Mortgage and Housing Corporation (CMHC) expects strong activity to continue into 2002, as a result of Alberta's favourable tax system, strong job market and low interest rates. The CMHC also finds the Canadian housing market in much better shape to weather the economic slowdown and effects of September 11 than it was in 1990 during the Gulf war.

- In 2001, Alberta housing starts are expected to reach 28,200 units. Starts in Edmonton and medium-sized communities grew strongly during the first ten months of 2001, while growth in Calgary starts was weak. The 7.2 per cent increase in the number of housing starts will result from the healthy labour market, rising household incomes, strong net migration, low new and existing home inventories, and low interest rates. Most of the growth will be in single-detached starts.

- Although the CMHC is forecasting a decline in housing starts for 2002, the projected level of 26,000 starts is high by historical standards and the result of "the Alberta job market performing better than the national average" which will lead to continued inter-provincial migration into the province.

Sources: CMHC; AED

- Favourable economic conditions will boost renovation spending in 2001. The CMHC expects renovation spending to increase by 13.6 per cent to $2.4 billion in 2001, and to reach sustainable growth of 7 per cent in 2002.

- According to the CMHC the residential sector could benefit from the downturn in international travel. It is likely that some of the money otherwise spent on travel will now be spent on home renovations, repaying mortgages or down payments towards the purchase of new residences.

- Investment in construction in the manufacturing sector is expected to decrease by 17 per cent to $477 million in 2001. The decline is due to the completion of major construction projects (i.e. petrochemical plants).

- In 2002, capital expenditures on new construction are expected to decline by five to ten per cent. Strong non-conventional energy-related (i.e. utilities infrastructure and oil sands development) spending will be more than offset by a sharp decline in conventional drilling activity.